

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: September 18, 2014

Subject Matter of Proposed Regulations: Continuing Education for Licensure with Experience Obtained Five Years or More Prior to Application or with a Cancelled License

Section(s) Affected: Title 16, Division 1, sections 12, 12.5, and 37

1. Amend Section 12

Specific Purpose of each adoption, amendment, or repeal:

1. Problem being addressed:

Currently, an applicant applying for Certified Public Accountant (CPA) licensure under section 12 with experience obtained five or more years prior to application and who has not passed the Uniform CPA Exam (CPA Exam) during this five-year period is required to complete 80 hours of continuing education (CE) within two years preceding the receipt of application by the California Board of Accountancy (CBA). Title 16, California Code of Regulations ("CBA Regulations") section 12(d)(1) states, "all 80 hours must be completed in two years preceding receipt of application by the Board." If an applicant is unaware of the CE requirement, it may lead to insufficient CE and a deficient application. Applicants would be required to complete CE and reapply for licensure. This proposal would resolve that problem by allowing applicants to complete the required CE in the two years preceding "approval" of the application by the board. This change would allow applicants who are unaware of the CE requirement the opportunity to address the deficiency and avoid outright rejection of the application for noncompliance with this section.

Additionally, existing law at CBA regulation 12(d)(3) states, "a minimum of 20 hours must be completed in the one year period immediately preceding the receipt of the application, with a minimum of 12 hours in subject areas described in Section 87(a)(2)." Applicants unaware of the CE requirement would be similarly unable to meet the timing element of this CE requirement. This proposal would resolve that problem by removing the requirement that 20 hours of CE be completed in the one year "immediately preceding the receipt of the application." The 20-hour requirement is being struck to allow applicants more

flexibility in completing the 80 hour requirement over a two-year period.

2. Anticipated benefits from this regulatory action:

The CBA's regulatory proposal would allow time for the CBA to notify an applicant who applies for licensure of the CE requirement, and would allow time for the applicant to complete it. This would reduce licensing delays and increase efficiencies for applicants applying for licensure. Additionally, removing the requirement for 20 hours of CE to be completed in the one year immediately preceding the receipt of the application provides consistency with the rest of the proposed amendments to allow applicants more time to satisfy eligibility requirements.

Factual Basis/Rationale

Currently, applicants who have not met all requirements are sent a deficiency letter. CBA regulations section 71 provides that applications are abandoned "if the applicant fails to complete the application within two years of its original submission or within one year of notification by the Board of any deficiency in the application." The CBA's regulatory proposal would allow time for the CBA to notify an applicant for licensure of the CE requirement if they have not completed the required hours, and provide time for the applicant to complete the CE.

2. Amend Section 12.5

Specific purpose of each adoption, amendment, or repeal:

1. Problem being addressed:

An applicant applying for CPA licensure with the authority to sign reports on attest engagements, with experience obtained five or more years prior to application and who has not passed the CPA Exam during this five-year period, is required to complete 80 hours of CE within two years preceding the receipt of application by the CBA. CBA Regulations section 12.5(g)(1) states, "the 80 hours must be completed in two years preceding receipt of application by the Board." If an applicant is unaware of the CE requirement, it may lead to insufficient CE and a deficient application. Applicants would be required to complete CE and reapply for licensure. This proposal would resolve that problem by allowing applicants to complete the required CE in the two years preceding "approval" of the application by the CBA. This change would allow applicants who are unaware of the CE requirement the opportunity to address the deficiency and avoid outright rejection of the application for noncompliance with this section.

Additionally, existing law at Section 12(g)(3)(A) states, “a minimum of 20 hours must be completed in the one year period immediately preceding the receipt of the application, with a minimum of 12 hours in subject areas described in Section 87(a)(2).” Applicants unaware of the CE requirement would be unable to meet the timing element of the CE. This proposal would resolve that problem by removing the requirement that 20 hours of CE be completed in the one year “immediately preceding the receipt of the application.” The 20-hour requirement is being struck to allow applicants more flexibility in completing the 80 hour requirement over a two-year period.

2. Anticipated benefits from this regulatory action:

The CBA’s regulatory proposal would allow time for the CBA to notify an applicant who applies for licensure of the CE requirement, and would allow time for the applicant to complete it. This would reduce licensing delays and increase efficiencies for applicants applying for licensure. Additionally, removing the requirement for 20 hours of CE to be completed in the one year immediately preceding the receipt of the application provides consistency with the rest of the proposed amendments.

Factual Basis/Rationale

Currently, applicants who have not met all requirements are sent a deficiency letter. CBA regulations section 71 provides that applications are abandoned “if the applicant fails to complete the application within two years of its original submission or within one year of notification by the Board of any deficiency in the application.” The CBA’s regulatory proposal would allow time for the CBA to notify an applicant who applies for licensure of the CE requirement if they have not completed the required hours, and provide time for the applicant to complete the CE.

3. Amend Section 37

Specific purpose of each adoption, amendment, or repeal:

1. Problem being addressed:

An applicant applying for reissuance of a cancelled CPA license is required to complete 80 hours of CE within two years preceding the receipt of application by the CBA. However, an applicant unaware of the CE requirement may have insufficient CE at the time of filing. CBA Regulations section 37(b) states, “An applicant who is applying for a reissued certificate shall, within two years prior to receipt of application, complete 80 hours of continuing education that meets the following requirements.” (See also 37(b)(2)(A).) If an applicant is unaware of the CE requirement, it may lead to insufficient CE and a deficient application.

Applicants would be required to complete CE and reapply for licensure. That problem is being addressed by striking the above-mentioned language and replacing it with language that only requires that the applicant “complete 80 hours of continuing education”...within two years “preceding approval” of the application by the CBA. This change would allow applicants who are unaware of the CE requirement the opportunity to address the deficiency and avoid outright rejection of the application for noncompliance with this section.

Additionally, existing law at section 37 states that, “a minimum of 20 hours must be completed in the one year period immediately preceding the receipt of the application, with a minimum of 12 hours in subject areas described in Section 87(a)(2).” Applicants unaware of the CE requirement would similarly be unable to meet the timing element of the CE, which creates an inconsistency with the rest of the proposed amendments. This proposal would resolve that problem by removing the requirements that 20 hours of CE be completed in the one year “immediately preceding the receipt of the application.” The 20-hour requirement is being struck to allow applicants more flexibility in completing the 80 hour requirement over a two-year period.

2. Anticipated benefits from this regulatory action:

The CBA’s regulatory proposal would allow time for the CBA to notify an applicant who applies for licensure of the CE requirement, and would allow time for the applicant to complete it. This would reduce licensing delays and increase efficiencies for applicants applying for licensure. Additionally, removing the requirement for 20 hours of CE to be completed in the one year immediately preceding the receipt of the application provides consistency with the rest of the proposed amendments.

Factual Basis/Rationale

Currently, applicants who have not met all requirements are sent a deficiency letter. CBA Regulations section 71 provides that applications are abandoned “if the applicant fails to complete the application within two years of its original submission or within one year of notification by the Board of any deficiency in the application.” The CBA’s regulatory proposal would allow time for the CBA to notify an applicant who applies for reissuance of a cancelled CPA license of the CE requirement, and would allow time for the applicant to complete the required hours.

Underlying Data

Technical, theoretical, or empirical studies, reports, or documents relied upon:
Minutes of the May 29, 2014 CBA’s Committee on Professional Conduct Meeting
Minutes of the May 29, 2014 CBA Meeting

Business Impact

This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the following facts or evidence/documents/testimony:

This proposal does not change the existing CE requirement in current law. This regulatory proposal would change the timeframe in which it must be completed. This change would also allow applicants who are unaware of the CE requirement the opportunity to address the deficiency and avoid outright rejection of the application. This would increase efficiencies and potentially reduce licensing delays for those who wish to employ new CPAs or start new CPA firms.

Economic Impact Assessment

This regulatory proposal will have the following effects:

- It will not create or eliminate jobs within the State of California because the regulatory proposal is not of sufficient magnitude to affect the creation or elimination of jobs. It only affects a small number of CPA applicants applying or reapplying for licensure who could be eligible to obtain a job requiring a CPA license. Generally, the CBA receives 65-70 applications per year that would apply to the proposed regulations.
- It will not create new business or eliminate existing businesses within the State of California because the regulatory proposal is not of sufficient magnitude to affect the creation or elimination of businesses in the State of California. It only affects a small number of CPA applicants applying or reapplying for licensure who could be eligible to obtain a job requiring a CPA license. Generally, the CBA receives 65-70 applications per year that would apply to the proposed regulations.
- It will not affect the expansion of businesses currently doing business within the State of California because the regulatory proposal is not of sufficient magnitude to affect the expansion of businesses in the State of California. It only affects a small number of CPA applicants applying or reapplying for licensure who could be eligible to obtain a job requiring a CPA license. Generally, the CBA receives 65-70 applications per year that would apply to the proposed regulations.
- This regulatory proposal benefits the health and welfare of California residents because it allows the CBA to notify an applicant for CPA licensure of required CE meant to assist licensees in maintaining currency of knowledge. This ensures services offered to California consumers are performed in accordance with professional standards, while still allowing time for the applicant to complete

the CE without reapplying.

- This regulatory proposal benefits does not affect worker safety because the regulatory proposal does not deal with worker safety.
- This regulatory proposal benefits does not affect the state's environment because the regulatory proposal does not deal with the state's environment.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

Alternative: The CBA considered not changing the CBA regulations and to continue to require applicants to complete all 80 hours of CE within two years preceding the receipt of application.

Reasons the Alternative was rejected: Requiring all 80 hours of CE to be completed within two years preceding the receipt of application does not allow applicants who have deficient CE and who are unaware of the CE requirements to correct their deficiency without reapplying.